

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
DECEMBER 31, 2018 AND 2017

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NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2018 and 2017

Our discussion and analysis of the financial performance of Newman Regional Health and our blended component unit, Newman Hospital Regional Foundation (Hospital), provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2018 and 2017. Please read it in conjunction with the accompanying financial statements. We would like to note that the Hospital adopted Governmental Accounting Standards Board Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This resulted in an adjustment to net position at January 1, 2017, of \$865,206. See Note A23 for additional discussion of this accounting change.

Financial highlights

The Hospital's net position decreased by \$920,153 or 7.1 percent in 2018 as compared to a decrease of \$1,211,230 or 8.6 percent in 2017.

The Hospital reported an operating loss of \$876,132 in 2018 compared to an operating loss of \$2,433,525 in 2017.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific operating purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources including all restricted and unrestricted assets and all liabilities using the accrual basis of accounting in a way that helps answer this question. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between assets and liabilities may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service provided to the community, as well as local economic factors to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

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MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2018 and 2017

Assets, deferred outflows, liabilities, deferred inflows, and net position

The Hospital's statements of net position as of the end of each of the last three years are summarized as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current assets	\$19,280,904	\$18,522,569	\$22,445,608
Assets limited as to use	7,836,722	19,352,355	21,270,921
Capital assets, net	33,131,588	23,544,367	19,459,285
Other assets	<u>457,967</u>	<u>441,454</u>	<u>318,589</u>
Total assets	<u>60,707,181</u>	<u>61,860,745</u>	<u>63,494,403</u>
Deferred outflows related to advance debt refunding	<u>113,234</u>	<u>199,403</u>	<u>312,913</u>
Liabilities			
Current liabilities	10,433,750	9,312,063	8,505,365
Long-term debt obligations	<u>19,893,953</u>	<u>21,368,239</u>	<u>22,826,005</u>
Total liabilities excluding net pension and OPEB liabilities	<u>30,327,703</u>	<u>30,680,302</u>	<u>31,331,370</u>
Pension and OPEB liabilities net of deferred outflows and net deferred inflows of resources related to pension and OPEB plans	<u>18,494,072</u>	<u>18,461,053</u>	<u>18,345,923</u>
Net position	<u>\$11,998,640</u>	<u>\$12,918,793</u>	<u>\$14,130,023</u>

Our liquidity position when measured by the ratio of current assets to current liabilities was 1.8 in 2018, 2.0 in 2017, and 2.6 in 2016. Current assets increased by \$758,335 in 2018 and decreased by \$3,923,039 in 2017. Significant components of current assets are cash and cash equivalents and patient accounts receivable. Cash and cash equivalents decreased from \$5.9 million in 2017 to \$4.6 million in 2018. The decrease in cash is due to less cash being generated from operations than being consumed by net capital and financing activities and cash provided by financing activities. See the cash flow statement for more details of the components affecting cash. The level of patient accounts receivable is impacted by patient revenues generated during the last two months of the year as well as our efficiency in collecting charges. The number of days net revenue invested in net accounts receivable was 54 days in 2018, 50 days in 2017, and 48 days in 2016.

Capital assets increased in 2018 primarily due to an emergency room expansion which was completed in December 2018. The emergency room expansion was funded through funds held by escrow that were received through the issuance of the 2016 Series bonds.

Total liabilities, excluding the net pension and OPEB liabilities, decreased in 2018 by \$352,599 and decreased by \$651,068 in 2017.

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Years ended December 31, 2018 and 2017

The net pension and OPEB liabilities, deferred outflows, and inflows related to KPERS was \$18,494,072, \$18,461,053, and \$18,345,923 at December 31, 2018, 2017, and 2016. The changes in these net amounts are actuarially determined by KPERS and will fluctuate based on actuarial assumptions related to investment returns, inflation, mortality rates, and other factors.

Operating results and changes in net position

In 2018, the Hospital's net position decreased by \$920,153, or 7.1 percent as shown in the following table. This decrease is made up of very different components. The Hospital's operating results and changes in net position for each of the last three years are summarized as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues			
Net patient service revenue	\$ 65,526,988	\$ 64,658,482	\$ 61,941,392
Electronic health records incentive revenue	1,928,759	88,709	665,606
Other operating revenue	<u>2,014,517</u>	<u>1,296,300</u>	<u>1,248,597</u>
Total operating revenue	<u>69,470,264</u>	<u>66,043,491</u>	<u>63,855,595</u>
Operating expenses			
Salaries and wages	31,407,212	30,964,127	27,735,561
Employee benefits	8,126,136	6,853,020	7,589,786
Supplies and other expenses	27,044,882	27,171,443	25,203,755
Depreciation and amortization	<u>3,768,166</u>	<u>3,488,426</u>	<u>4,063,371</u>
Total operating expenses	<u>70,346,396</u>	<u>68,477,016</u>	<u>64,592,473</u>
Operating loss	(876,132)	(2,433,525)	(736,878)
Interest expense	(351,739)	(378,662)	(640,240)
Property taxes	300,000	300,000	365,000
Other nonoperating revenues (expenses)	(161,094)	1,134,683	503,379
Capital grants and contributions	<u>168,812</u>	<u>166,274</u>	<u>217,936</u>
Change in net position	<u>\$ (920,153)</u>	<u>\$ (1,211,230)</u>	<u>\$ (290,803)</u>

The first component of the overall change in the Hospital's net position is the operating income - generally, the difference between operating revenues and expenses incurred to perform those services. The Hospital reported an operating loss of \$876,132 in 2018, a \$1,557,393 improvement as compared with 2017. One noticeable change between 2018 and 2017 is that we recognized \$1,840,850 of additional electronic health record incentive revenue in 2018 as compared to 2017 due to the final implementation of the Hospital's new software system. This revenue was provided by the Medicare program to incentivize hospitals to upgrade their electronic medical record systems. These revenues will not continue into the future as this program is no longer made available by Medicare. The operating performance of our Hospital is influenced by utilization, availability of physician services, patient access to health insurance coverage, and third-party reimbursement rates.

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The Hospital generates approximately 26 percent of gross revenues from inpatient services and 74 percent from outpatient and physician services. The Medicare program, which accounts for 46 percent of the Hospital's net revenues, reimburses inpatient, swing-bed, and outpatient services based upon a cost reimbursement methodology. Inpatient rehabilitation, physician, and hospice services are prospectively reimbursed by Medicare.

The Hospital's net patient service revenue increased by 1.3 percent in 2018 as compared to 2017, and by 4.4 percent in 2017 as compared to 2016. The change in net revenues is partially due to increased outpatient and physician volumes and partially due to increased expenses which affects the reimbursement from the Medicare program. Total inpatient days of care (acute, intensive care, swing-bed, rehabilitation, and nursery) were 8,562, 7,691, and 8,306 in 2018, 2017, and 2016, respectively. Due to critical access hospitals being limited to the number of beds that it can make available for patient care, we expect that any growth in the future will be from inpatient rehabilitation, outpatient, and physician services.

The change in operating revenues from year to year is also impacted by the amount of payments received from the State of Kansas Medicaid disproportionate share hospital (DSH) program. During 2018, 2017, and 2016, the Hospital recognized Medicaid DSH revenue of \$1,197,024, \$758,939, and \$705,755. Eligibility for these payments is determined annually and is based upon numerous factors including uncompensated care cost from providing services to the uninsured and Medicaid beneficiaries as compared with other qualifying hospital providers. These funds are essential to offsetting a portion of the loss from treating uninsured and underinsured patients.

Another factor affecting net patient service revenue is the amount of care provided by the Hospital for which no payment is received or expected to be received. Understanding our role as a community member, the Hospital has a policy to automatically provide a 20-percent discount to all uninsured patients. The percentage of gross charges that are written off due to uninsured discounts, charity care discounts, and bad debts equaled 5.7 percent in 2018. This compares to 6.1 percent in 2017 and 5.9 percent in 2016. Total discounts granted to uninsured or charity care patients equaled \$3,362,845 in 2018 as compared to \$3,481,292 in 2017 and \$3,377,692 in 2016. We estimate that the total unreimbursed cost of providing services to amounts written off to bad debts, charity care, and uninsured discounts was approximately \$3,450,000 in 2018.

Salaries and benefits are significant components of operations. Total salaries and wages increased by 1.4 percent in 2018, 11.6 percent in 2017, and by 7.6 percent in 2016. The specific department experiencing an increase in 2018 as compared with 2017 was hospitalist services of \$648,000. The increase in salaries is primarily driven by an increase in FTEs. Employee benefits expense excluding the pension adjustment represented 25.8, 21.8, and 27.2 percent of salary expense. The change in this percentage is largely dependent upon our KPERS funding requirements and the cost of health insurance. Health insurance increased approximately \$1,100,000 in 2018 and decreased approximately \$1,080,000 in 2017 as compared to the prior year. Our KPERS cash funding (excluding the pension adjustment) was 8.4 percent, 8.5 percent, and 9.2 percent of covered salary in 2018, 2017, and 2016. Additional information related to the funding of our pension obligations can be found in the footnotes and supplementary information.

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Supplies and other expenses decreased by \$126,561 or 0.5 percent in 2018, increased by \$1,967,688 or 7.8 percent in 2017, as compared to 2016. While we have experienced normal inflationary increases in the cost of goods and services each year, in 2018, we experienced increases in contract labor costs and retail pharmacy expenses associated with entering the 340(b) drug discount program. These increases were offset by some specific operating decreases including the cost of pharmacy drugs which decreased in 2018 due to savings realized from purchasing certain drugs utilized in the hospital through the 340b drug discount program.

Depreciation and amortization expenses increased \$279,740 in 2018, decreased by \$574,945 in 2017, and increased by \$13,220 in 2016. These changes are based on the level of new capital and equipment placed into service by year as compared to the property and equipment which becomes fully depreciated.

Other nonoperating revenue and (expenses) were \$161,094 in 2018, \$1,134,683 in 2017, and \$503,379 in 2016. The change in this line item is primarily due to the change in unrealized gains and losses on the investments held by the Foundation. The Foundation reported a net change in unrealized losses of \$727,936 in 2018, as compared to net unrealized gains of \$574,432 in 2017 and an unrealized loss of \$12,550 in 2016.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Newman Regional Health.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Newman Memorial County Hospital

We have audited the accompanying financial statements of the business-type activity of Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital), a component unit of Lyon County, Kansas, as of and for the years ended December 31, 2018 and 2017 and related notes to the financial statements, which collectively comprise the Hospital's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activity of Newman Memorial County Hospital d/b/a Newman Regional Health as of December 31, 2018 and 2017, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the financial statements, in 2018 the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5 be presented to supplement the financial statements. These standards also require that the pension and other postemployment information on pages 40 through 42 be included to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wendling Nor Nelson & Johnson LLC

Topeka, Kansas
April 3, 2019

FINANCIAL STATEMENTS

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF NET POSITION
December 31,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,584,971	\$ 5,894,974
Assets limited as to use	2,127,066	514,886
Patient accounts receivable, net of estimated uncollectibles of \$3,014,100 in 2018 and \$2,724,800 in 2017	9,666,311	8,846,580
Other receivables	757,264	54,519
Inventories	1,697,221	1,718,309
Prepaid expenses	138,372	367,965
Estimated third-party payor settlements	309,699	1,125,336
Total current assets	<u>19,280,904</u>	<u>18,522,569</u>
ASSETS LIMITED AS TO USE		
Investments held by Foundation	5,255,552	5,806,392
Under bond indenture agreements - held by trustee less amounts required to meet current obligations	2,581,170	13,545,963
	<u>7,836,722</u>	<u>19,352,355</u>
CAPITAL ASSETS, net	<u>33,131,588</u>	<u>23,544,367</u>
OTHER ASSETS		
Other receivables	362,484	335,918
Prepaid expenses	95,483	105,536
	<u>457,967</u>	<u>441,454</u>
Total assets	<u>60,707,181</u>	<u>61,860,745</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension	4,511,457	4,456,722
Other postemployment benefits	34,197	43,022
Loss on bond refunding	113,234	199,403
Total deferred outflows of resources	<u>4,658,888</u>	<u>4,699,147</u>
Total assets and deferred outflows of resources	<u>\$ 65,366,069</u>	<u>\$ 66,559,892</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,328,337	\$ 1,292,262
Accounts payable and accrued expenses	4,646,373	2,298,568
Unearned revenue		1,561,342
Accrued salaries, vacation, benefits, and payroll taxes	3,070,513	2,945,527
Interest payable	59,721	61,558
Accrued health insurance claims	451,000	276,000
Estimated liability for receivables sold with recourse	113,000	112,000
Estimated third-party payor settlements	764,806	764,806
Total current liabilities	<u>10,433,750</u>	<u>9,312,063</u>
LONG-TERM DEBT, net of current maturities	<u>19,893,953</u>	<u>21,368,239</u>
OTHER POSTEMPLOYMENT LIABILITY	<u>757,027</u>	<u>916,809</u>
NET PENSION LIABILITY	<u>21,158,290</u>	<u>20,827,835</u>
Total liabilities	<u>52,243,020</u>	<u>52,424,946</u>
DEFERRED INFLOWS OF RESOURCES		
Pension	904,057	1,192,251
Other postemployment benefits	220,352	23,902
Total deferred inflows of resources	<u>1,124,409</u>	<u>1,216,153</u>
NET POSITION		
Net investment in capital assets	13,032,593	13,122,044
Restricted		
For debt service	1,693,747	1,568,747
For specific operating activities	4,763,517	5,090,251
Nonexpendable permanent endowments	618,081	617,441
Unrestricted	<u>(8,109,298)</u>	<u>(7,479,690)</u>
Total net position	<u>11,998,640</u>	<u>12,918,793</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 65,366,069</u>	<u>\$ 66,559,892</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year ended December 31,

	<u>2018</u>	<u>2017</u>
Operating revenues		
Net patient service revenue	\$ 65,526,988	\$ 64,658,482
Electronic health records incentive revenue	1,928,759	88,709
Other	<u>2,014,517</u>	<u>1,296,300</u>
Total operating revenues	<u>69,470,264</u>	<u>66,043,491</u>
Operating expenses		
Salaries and wages	31,407,212	30,964,127
Employee benefits	8,093,117	6,737,890
Actuarial adjustments for pension and OPEB expenses	33,019	115,130
Supplies and other expenses	27,044,882	27,171,443
Depreciation and amortization	<u>3,768,166</u>	<u>3,488,426</u>
Total operating expenses	<u>70,346,396</u>	<u>68,477,016</u>
Operating loss	<u>(876,132)</u>	<u>(2,433,525)</u>
Nonoperating revenues (expenses)		
Investment income (loss)	(116,384)	1,030,509
Interest expense	(351,739)	(378,662)
Noncapital grants and contributions	171,132	257,724
Property taxes	300,000	300,000
Other	<u>(215,842)</u>	<u>(153,550)</u>
Total nonoperating revenues (expenses)	<u>(212,833)</u>	<u>1,056,021</u>
Excess of expenses over revenues before capital grants and contributions	(1,088,965)	(1,377,504)
Capital grants and contributions	<u>168,812</u>	<u>166,274</u>
Change in net position	<u>(920,153)</u>	<u>(1,211,230)</u>
Net position at beginning of year		
As previously reported	13,816,482	14,995,229
Prior period adjustment for change in accounting principle	<u>(897,689)</u>	<u>(865,206)</u>
As restated	<u>12,918,793</u>	<u>14,130,023</u>
Net position, end of year	<u>\$ 11,998,640</u>	<u>\$ 12,918,793</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL

D/B/A NEWMAN REGIONAL HEALTH

STATEMENTS OF CASH FLOWS

Year ended December 31,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 65,523,894	\$ 64,457,553
Payments to or on behalf of employees	(39,617,343)	(37,166,232)
Payments to suppliers	(26,417,571)	(27,355,426)
Other receipts and payments	<u>2,080,331</u>	<u>1,245,272</u>
Net cash provided by operating activities	<u>1,569,311</u>	<u>1,181,167</u>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	171,132	257,724
Property taxes	300,000	300,000
Other	<u>(206,868)</u>	<u>(197,316)</u>
Net cash provided by noncapital financing activities	<u>264,264</u>	<u>360,408</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(11,106,769)	(7,020,575)
Grants and contributions for capital	168,812	166,274
Proceeds from sale of equipment		4,093
Interest paid on capital related debt	(773,282)	(871,037)
Principal payments on long-term debt	<u>(1,292,262)</u>	<u>(1,194,298)</u>
Net cash used by capital and related financing activities	<u>(13,003,501)</u>	<u>(8,915,543)</u>
Cash flows from investing activities		
Change in assets limited as to use held by trustee under bond indenture agreement	9,342,711	2,249,966
Change in investments held by Foundation	(177,096)	(124,898)
Interest received	<u>694,308</u>	<u>528,793</u>
Net cash provided by investing activities	<u>9,859,923</u>	<u>2,653,861</u>
Change in cash and cash equivalents	(1,310,003)	(4,720,107)
Cash and cash equivalents at beginning of year	<u>5,894,974</u>	<u>10,615,081</u>
Cash and cash equivalents at end of year	<u>\$ 4,584,971</u>	<u>\$ 5,894,974</u>

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (876,132)	\$ (2,433,525)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	3,768,166	3,488,426
Provision for bad debts	4,868,356	5,454,177
Changes in		
Patient accounts receivable	(5,688,087)	(6,248,104)
Inventories	21,088	3,782
Prepaid expenses	229,593	197,928
Accounts payable and accrued expenses	(884,726)	61,383
Estimated third-party payor settlements	815,637	588,998
Estimated liability for receivables sold	1,000	4,000
Other receivables	(718,603)	(51,028)
Net pension and OBEF liability, deferred inflows, and deferred outflows related to Pension and OPEB liabilities	<u>33,019</u>	<u>115,130</u>
Net cash provided by operating activities	<u>\$ 1,569,311</u>	<u>\$ 1,181,167</u>
Supplemental schedule of noncash investing and financing activities		
Net change in unrealized gains and (losses) on investments	\$ (727,936)	\$ 575,432
Capital lease obligations incurred	12,742	

The accompanying notes are an integral part of these statements.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital) is owned by Lyon County (the County), Kansas, and operated by the Board of Trustees, a nine-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1922, is a not-for-profit general hospital located in Emporia, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of Lyon County.

2. Component unit

Newman Hospital Regional Health Foundation (the Foundation) is a not-for-profit corporation organized to carry out the purposes of the Hospital in betterment and enhancement of the health care services for the citizens of the community. The governing body of the Foundation is appointed by the Hospital and can be removed by the Hospital's board at will. The Hospital includes the Foundation as a component unit in the Hospital's financial statements using the blended method. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly-liquid debt instruments with maturities of three months or less excluding any such amounts included in investments held by the Foundation or assets limited as to use under bond indenture agreements and held by trustee.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable by type of payor.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

7. Property taxes

The County levies a property tax to support Hospital operations. The taxes are levied in November of each year with the Hospital receiving funds beginning in January of the following year. The property tax revenue is recognized in full the year following the year the taxes were levied which is the year in which use is first permitted.

8. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

9. Investments and investment income

Investments in debt and equity securities with readily determinable fair values are measured at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments are recognized as investment income when earned.

10. Assets limited as to use

Assets limited as to use include assets held by a trustee under bond indenture agreements, and investments held by the Foundation.

11. Capital assets

Capital assets, including assets recorded as capital leases and intangible assets, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with useful lives established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition are included in nonoperating revenues and expenses.

12. Cost of borrowing

Interest costs including incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

13. Grants and contributions

From time to time, the Hospital and Foundation receive grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

14. Accrued vacation and other employee benefits

Employees are entitled to paid vacation depending on length of service and whether they are full-time or part-time. Upon retirement, resignation, or termination from service, employees are entitled to payment for all accrued vacation, up to an allowable maximum. Vacation benefits are accrued as earned.

15. Accrued health insurance claims

The Hospital is partially self-insured for health insurance claims of its employees (Note I). Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. The estimate is based on known claims and historical claims experience. Although management believes the estimate for accrued health insurance claims is reasonable, it is possible that actual incurred claims expense may vary significantly from the estimate recorded.

16. Deferred outflows and inflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

17. Pension and Other Post Employee Benefit (OPEB) plans

The Hospital participates in the Kansas Public Employees Retirement System Plan (KPERs), a cost-sharing multiple-employer defined benefit pension plan. The Hospital also provides long-term disability benefits to its employees through KPERs. The Hospital utilizes information provided by KPERs to measure the net pension and OPEB liability, deferred outflows, and deferred inflows of resources related to the benefits provided through the KPERs plan.

18. Net position

The net position of the Hospital is classified in three components. "Net investment in capital assets net of related debt" consists of net capital assets and reduced by the current balances of outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital or Foundation, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note D. "Unrestricted net position" is remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

19. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

20. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code and the Foundation is exempt from income taxes pursuant to Section 501(c)(3).

21. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

22. Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. The reclassifications had no effect on the changes in financial position.

23. Adoption of accounting pronouncement

In 2018, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" which revised accounting and reporting standards related to postemployment benefits for state and local government entities. Comparative financial statements of prior years have been adjusted to apply this standard retrospectively. An adjustment of \$865,206 applicable to 2016 and prior years has been included in the restated 2017 beginning net position balance of the Hospital to recognize the net position of the liability. This restatement decreased the previously reported change in net position of the Hospital by \$32,483 for the year ended December 31, 2017, as a result of this change.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for inpatient acute care, skilled swing-bed, and certain outpatient services under various cost reimbursement methodologies. Inpatient rehab, hospice, and physician services are

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE B - NET PATIENT SERVICE REVENUE - Continued

prospectively reimbursed based on prospectively determined rates. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2015.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital receives a hospital-specific add-on percentage to each claim based on previously filed cost reports. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of Hospital gross and net patient service revenue is as follows:

	<u>2018</u>	<u>2017</u>
Gross patient service revenue	\$ 144,711,878	\$ 147,540,591
Deductions from patient service revenue		
Third-party contractual adjustments	(72,098,706)	(74,563,312)
Medicaid DSH payments	1,197,024	758,939
Provision for bad debts	(4,868,356)	(5,454,177)
Charity care	(2,139,955)	(1,947,936)
Uninsured discounts	(1,222,890)	(1,533,356)
Other discounts and allowances	<u>(52,007)</u>	<u>(142,267)</u>
Net patient service revenue	<u>\$ 65,526,988</u>	<u>\$ 64,658,482</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 46 percent and 5 percent, respectively, of the Hospital's net patient revenue during 2018 and 48 percent and 7 percent, respectively, of the Hospital's net patient revenue during 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation.

The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from its Medicare cost reports, was \$897,000 and \$795,000 for 2018 and 2017, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE C - ELECTRONIC HEALTH RECORD INCENTIVE REVENUE

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Hospital recognizes revenue for EHR incentive payments when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between Medicare and Medicaid programs.

Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Hospital recognized \$1,928,759 and \$88,709 of revenue for EHR incentive payments during the years ended December 31, 2018 and 2017, respectively

NOTE D - ASSETS LIMITED AS TO USE

Under bond indenture agreements - held by trustee

Assets limited as to use by bond indenture agreements are held by a trustee and are stated at fair value. These assets are related to the revenue bond issue (Note F) and consist of the following:

	<u>2018</u>	<u>2017</u>
Principal and interest sinking fund	\$ 205,571	\$ 68,856
Interest receivable	7,777	17,680
Construction fund	3,014,489	12,492,102
Bond reserve fund	<u>1,480,399</u>	<u>1,482,211</u>
	<u>\$ 4,708,236</u>	<u>\$ 14,060,849</u>

Assets are invested by the trustee as follows:

	<u>2018</u>	<u>2017</u>
Money Market Treasury fund	\$ 1,693,292	\$ 3,318,425
U.S. Government and Agency obligations at fair value	3,007,167	10,724,744
Interest receivable	<u>7,777</u>	<u>17,680</u>
	<u>\$ 4,708,236</u>	<u>\$ 14,060,849</u>

The bond reserve funds are available for bond principal and interest payments to prevent any default in the payment of principal or interest of the respective bonds or, if not so required, may be used to make the final payments of bond principal and interest.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE E - CAPITAL ASSETS

	Balance December 31, 2017	Transfers and additions	Retirements	Balance December 31, 2018
Land	\$ 1,293,632	\$ -	\$ -	\$ 1,293,632
Land improvements	876,480			876,480
Buildings	34,894,856	14,358,471	25,451	49,227,876
Medical office building	11,611,344			11,611,344
Fixed equipment	10,810,748	295,229		11,105,977
Future expansion property	430,185			430,185
Rental property	561,321			561,321
Leasehold improvements	404,313			404,313
Major movable equipment	<u>23,565,050</u>	<u>4,261,899</u>		<u>27,826,949</u>
Totals at historical cost	<u>84,447,929</u>	<u>18,915,599</u>	<u>25,451</u>	<u>103,338,077</u>
Less accumulated depreciation and amortization for				
Land improvements	500,144	43,719		543,863
Buildings	29,031,092	844,238	5,769	29,869,561
Medical office building	7,950,227	253,867		8,204,094
Fixed equipment	8,940,617	327,765		9,268,382
Rental property	28,039	22,454		50,493
Future expansion property	2,400	4,115		6,515
Leasehold improvements	84,555	39,680		124,235
Major movable equipment	<u>19,981,295</u>	<u>2,232,328</u>		<u>22,213,623</u>
Total accumulated depreciation and amortization	<u>66,518,369</u>	<u>3,768,166</u>	<u>5,769</u>	<u>70,280,766</u>
	17,929,560	15,147,433	19,682	33,057,311
Projects in progress	<u>5,614,807</u>	<u>(5,540,530)</u>		<u>74,277</u>
Capital assets, net	<u>\$23,544,367</u>	<u>\$ 9,606,903</u>	<u>\$ 19,682</u>	<u>\$33,131,588</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE E - CAPITAL ASSETS - Continued

	Balance December 31, 2016	Transfers and additions	Retirements	Balance December 31, 2017
Land	\$ 684,134	\$ 609,498	\$ -	\$ 1,293,632
Land improvements	611,950	264,530		876,480
Buildings	34,784,034	110,822		34,894,856
Medical office building	11,611,344			11,611,344
Fixed equipment	10,214,545	596,203		10,810,748
Future expansion property	840,490	(410,305)		430,185
Rental property	350,779	210,542		561,321
Leasehold improvements	236,751	282,807	115,245	404,313
Major movable equipment	<u>23,239,941</u>	<u>1,082,613</u>	<u>757,504</u>	<u>23,565,050</u>
Totals at historical cost	<u>82,573,968</u>	<u>2,746,710</u>	<u>872,749</u>	<u>84,447,929</u>
Less accumulated depreciation and amortization for				
Land improvements	462,955	37,189		500,144
Buildings	27,958,821	1,072,271		29,031,092
Medical office building	7,644,653	305,574		7,950,227
Fixed equipment	8,600,837	339,780		8,940,617
Rental property	5,599	22,440		28,039
Future expansion property		2,400		2,400
Leasehold improvements	144,713	55,087	115,245	84,555
Major movable equipment	<u>19,085,114</u>	<u>1,653,685</u>	<u>757,504</u>	<u>19,981,295</u>
Total accumulated depreciation and amortization	<u>63,902,692</u>	<u>3,488,426</u>	<u>872,749</u>	<u>66,518,369</u>
	18,671,276	(741,716)	-	17,929,560
Projects in progress	<u>788,009</u>	<u>4,826,798</u>		<u>5,614,807</u>
Capital assets, net	<u>\$19,459,285</u>	<u>\$ 4,085,082</u>	<u>\$ -</u>	<u>\$23,544,367</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE F - LONG-TERM DEBT

Long-term debt obligations consist of the following:

	<u>2018</u>	<u>2017</u>
Lyon County, Kansas Public Building Commission, Newman Memorial County Hospital Refunding Revenue Bonds, Series 2016-A, issued October 31, 2016, in the original amount of \$19,970,000, 3.00% to 5.00% bonds due serially through December 1, 2036	\$ 18,585,000	\$ 19,320,000
2.50% Note payable to bank entered into May 14, 2013, in the original amount of \$3,000,000, payable in equal monthly installments of \$39,018, including interest, through August 14, 2020, collateralized by equipment with an amortized cost of \$39,758 at December 31, 2018	759,127	1,202,336
2.28% Lease payable to bank entered into December 15, 2016, in the original amount of \$583,708, payable in equal monthly installments of \$10,303, including interest, through December 15, 2021, collateralized by equipment with an amortized cost of \$447,893 at December 31, 2018	358,170	472,223
3.74% Lease payable to equipment vendor entered into November 9, 2018, in the original amount of \$12,742, payable in equal monthly installments of \$223, including interest, through March 1, 2024, collateralized by equipment with an amortized cost of \$12,742 at December 31, 2018	<u>12,742</u>	
	19,715,039	20,994,559
Add net unamortized premium on bonds	1,507,251	1,665,942
Less current maturities of long-term debt	<u>(1,328,337)</u>	<u>(1,292,262)</u>
Long-term debt, net of current maturities	<u>\$ 19,893,953</u>	<u>\$ 21,368,239</u>

The following is a summary of changes in long-term debt:

	<u>Hospital revenue bonds</u>	<u>Notes and leases payable</u>	<u>Total</u>
Outstanding at January 1, 2017	\$ 19,970,000	\$ 2,218,857	\$ 22,188,857
Principal payments	<u>(650,000)</u>	<u>(544,298)</u>	<u>(1,194,298)</u>
Outstanding at December 31, 2017	19,320,000	1,674,559	20,994,559
Issuance of long-term debt	12,742	12,742	12,742
Principal payments	<u>(735,000)</u>	<u>(557,262)</u>	<u>(1,292,262)</u>
Outstanding at December 31, 2018	<u>\$ 18,585,000</u>	<u>\$ 1,130,039</u>	<u>\$ 19,715,039</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE F - LONG-TERM DEBT - Continued

Annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,328,337	\$ 738,126	\$ 2,066,463
2020	1,206,402	705,618	1,912,020
2021	924,532	672,378	1,596,910
2022	827,504	646,773	1,474,277
2023	852,599	621,928	1,474,527
2024 - 2028	4,745,665	2,617,155	7,362,820
2029 - 2033	5,800,000	1,565,250	7,365,250
2034 - 2036	4,030,000	382,350	4,412,350
	<u>\$ 19,715,039</u>	<u>\$ 7,949,578</u>	<u>\$ 27,664,617</u>

On March 1, 2010, the Lyon County Public Building Commission issued \$14,120,000 in Revenue Bonds, Series 2010-A, on behalf of the Hospital. The proceeds of the 2010 Bonds used together with other funds were used to refund the Series 2001-A, 2001-B, and 2002-A bonds and to pay costs related to the issuance of the 2010-A bonds. These bonds were legally defeased in 2016 when a portion of the proceeds from the 2016 bond issue was placed into a separate trust for the benefit of the 2010 bondholders.

On October 31, 2016, the Lyon County Public Building Commission issued \$19,970,000 in Revenue Bonds, Series 2016-A, on behalf of the Hospital. The proceeds of these bonds were used to advance refund \$7,795,000 of the 2010-A bonds and fund an emergency room renovation and expansion. As a part of this transaction, the Hospital recognized a deferred refunding loss which is reported as a deferred outflow. The refunding loss is being systematically amortized over the period 2016 to 2021, the remaining term of the 2010-A bonds as of the date of the refunding. The proceeds from this issue were (1) used to advance refund the Series 2010-A bonds on December 1, 2018, and (2) pay certain costs related to the issuance of the 2016-A bonds, and (3) fund certain renovations to the Hospital facility.

The indenture agreement for the bonds requires the Hospital to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates. Such amounts were maintained and are included with assets limited as to use in the financial statements. The indenture agreement also includes certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness, and level of fees and rates charged.

NOTE G - DEFINED BENEFIT PENSION PLAN

Plan description

The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, etc seq. Substantially all employees of the Hospital are eligible to participate in KPERS. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

Kansas law establishes and amends benefit provisions. Substantially all public employees in Kansas are covered by KPERS. Participation by local political subdivisions and entities is optional, but irrevocable once elected. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-888-275-5737.

Benefits

Benefits are established by statute and may only be changed by the Kansas Legislature. Members with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points."

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members may choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions

Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of an annual actuarial valuation for each of the three statewide pension groups. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

KPERS has three benefit structures and funding depending on whether the employee is a Tier 1, Tier 2, or Tier 3 member. Tier 1 members were hired before July 1, 2009, Tier 2 members were first employed on or after July 1, 2009, and Tier 3 members were first employed on or after January 1, 2015. Kansas law establishes the KPERS member-employee contribution rate at 6 percent of covered salary for all members for 2018 and 2017, respectively. The employer rates established by statute at December 31, 2018 and 2017, are 8.39 percent and 8.46 percent, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

The Hospital employer contributions to KPERS for the years ended December 31, 2018 and 2017, were \$2,333,228 and \$2,236,968, respectively, equal to the statutory required contributions for each year.

Employer and Nonemployer Allocations

Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

- State/School
- Local
- Police and Firemen
- Judges

To facilitate the separate (sub) actuarial valuations, the System maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The Hospital is included in the local group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer. The allocation percentages for the Hospital's share of the collective pension amounts as of December 31, 2018 and 2017, are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group for the years ended June 30, 2018 and 2017, respectively. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. As of December 31, 2018, the Hospital's proportion was 1.518 percent which was an increase of .080 percent from its share at December 31, 2017.

Net pension liability

At December 31, 2018 and 2017, the Hospital reported a liability of \$21,158,290 and \$20,827,835, respectively, for its proportionate share of the net pension liability.

Actuarial Assumptions

The total pension liability was determined by actuarial valuations as of December 31, 2017 and 2016, which were then rolled forward to June 30, 2018 and 2017, using the following actuarial assumptions:

<u>Actuarial assumptions</u>	<u>2017</u>	<u>2016</u>
Price inflation	2.75%	2.75%
Wage inflation	3.50%	3.50%
Salary increases, including wage increases	3.5% - 12.00%	3.5% - 12.00%
Long-term rate of return net of investment expense and including price inflation	7.75%	7.75%

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

The actuarial assumptions used in the December 31, 2017 and 2016 valuations were based on the results of an actuarial experience study conducted for the period January 1, 2013 through December 31, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by weighting the expected future real rates of return by the target asset allocation percentage. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2018, are summarized in the following table:

<u>Asset class</u>	<u>Long-term target allocation</u>	<u>Long-term expected real rate of return</u>
Global equity	47.00 %	6.85 %
Fixed income	13.00	1.25
Yield driven	8.00	6.55
Real return	11.00	1.71
Real estate	11.00	5.05
Alternatives	8.00	9.85
Short-term investments	<u>2.00</u>	(0.25)
Total	<u>100.00</u> %	

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. The State, School, and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The statutory cap for the year ended June 30, 2018, was 1.2 percent. The projection of cash flows used to determine the discount rates assumed that contributions from plan members will be made within the same range as have been made during the past few years.

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of the pension plan as of June 30, 2018, calculated using the discount rate of 7.75 percent, as well as what the pension plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current discount rate (7.75%)	1% Increase (8.75%)
Hospital's share of net pension liability	\$ 31,031,718	\$ 21,158,290	\$ 12,814,351

Pension expense

For the years ended December 31, 2018 and 2017, the Hospital recognized pension expense of \$2,320,754 and \$2,319,615, respectively, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Deferred Outflows of Resources and Deferred Inflows of Resources

A summary of the collective deferred outflows of resources and deferred inflows of resources at December 31, 2018 and 2017, are included in the tables below. Experience gains/losses and the impact of changes in actuarial assumptions or other inputs, if any, are recognized over the average expected remaining service life of the active and inactive plan members at the beginning of the measurement period. Investment gains and losses are recognized over a fixed five-year period.

	<u>2018</u>	<u>2017</u>
Deferred outflows of resources		
Differences between expected and actual experience	\$ 76,390	\$ 100,736
Changes of assumptions	916,244	1,121,665
Net difference between projected and actual earnings on pension plan investments	494,959	653,335
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	1,934,926	1,528,930
Employer contributions subsequent to the measurement date	<u>1,088,938</u>	<u>1,052,056</u>
Total deferred outflows of resources	<u>\$ 4,511,457</u>	<u>\$ 4,456,722</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

	<u>2018</u>	<u>2017</u>
Deferred inflows of resources		
Differences between expected and actual experience	\$ 599,531	\$ 720,183
Changes of assumptions	101,891	152,302
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	<u>202,635</u>	<u>319,766</u>
Total deferred inflows of resources	<u>\$ 904,057</u>	<u>\$ 1,192,251</u>

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2018, that will be recognized in pension expense in future years:

<u>Year ended December 31,</u>	<u>Employer contributions subsequent to the measurement date</u>	<u>Recognition of net deferred outflows/(inflows) of resources by year</u>	<u>Total</u>
2019	\$ 1,088,938	\$ 1,278,070	\$ 2,367,008
2020		856,495	856,495
2021		102,736	102,736
2022		237,348	237,348
2023		<u>43,813</u>	<u>43,813</u>
	<u>\$ 1,088,938</u>	<u>\$ 2,518,462</u>	<u>\$ 3,607,400</u>

NOTE H - OTHER POSTEMPLOYMENT BENEFIT PLAN

Plan description and benefits provided

The Kansas Public Employees Retirement System (KPERS) sponsors a long-term disability program for participating employers (the Plan). Participating employers pay the cost of the long-term disability and life insurance coverage for their members as provided by K.S.A. 74-04927. The Hospital is considered to be participating in a single employer long-term disability plan. The Plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. However because the trust's assets are used to pay employee benefits other than postemployment benefits (OPEB), the trust does not meet the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Accordingly, the Plan is considered to be administered on a pay-as-you-go basis.

Benefits are established by statute and may be amended by the KPERS Board of Trustees. The Plan provides long-term disability benefits equal to 60 percent (prior to January 1, 2006, 66 2/3 percent) of annual compensation, offset by other benefits. Members receiving long-term disability benefits also receive credit towards their KPERS retirement benefits and have their group life insurance coverage continued under the waiver of premium provision.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE H - OTHER POSTEMPLOYMENT BENEFIT PLAN - Continued

The monthly long-term disability benefit is 60 percent of the member's monthly compensation, with a minimum of \$100 and a maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which includes Social Security primary disability or retirement benefits, workers compensation benefits, other disability benefits from other sources by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while the disability continues until the member's 65th birthday or retirement date, whichever occurs first. If the disability begins after age 60, benefits are payable while the disability continues, for a period of five years or until the member retires, whichever occurs first. Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically based mental illnesses are limited to the shorter of the term of the disability or 24 months per lifetime. There are no automatic cost-of-living increase provisions. KPERS has the authority to implement an ad hoc cost-of-living increase.

The death benefit paid to beneficiaries of disabled members is 150 percent of the greater of 1) the member's annual rate of compensation at the time of disability, or 2) the member's previous 12 months of compensation at the time of the past date on payroll. If the member has been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed using the consumer price index, less one percentage point, to compute the death benefit. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, the member may be eligible to receive up to 100 percent of the death benefit rather than having the benefit paid to the beneficiary. If a member retires or disability benefits end, the member may convert the group life insurance coverage to an individual insurance policy.

Covered employees

The Hospital has the following employees covered by the Plan as of December 31,

	<u>2017</u>	<u>2016</u>
Inactive employees or beneficiaries		
currently receiving benefit payments	7	10
Active employees	<u>436</u>	<u>429</u>
Total	<u>443</u>	<u>439</u>

Total OPEB liability

At December 31, 2018 and 2017, the Hospital reported a total OPEB liability of \$757,027 and \$916,809, respectively.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE H - OTHER POSTEMPLOYMENT BENEFIT PLAN - Continued

Actuarial assumptions

The total OPEB liability was determined by actuarial valuations as of December 31, 2017 and 2016, which were then rolled forward to June 30, 2018 and 2017, using the following actuarial assumptions:

<u>Actuarial assumptions</u>	<u>2017</u>	<u>2016</u>
Price inflation	2.75%	2.75%
Wage inflation	3.00%	3.00%
Salary increases, including wage increases	3.50% - 10.00%	3.50% - 10.00%
Discount rate	3.87%	3.58%

In 2017 and 2016, mortality rates used for the death benefits were based on the RP-2014 Mortality Tables. Future mortality improvements were projected using Scales MP-2018 and MP-2017 in 2017 and 2016 respectively. Mortality rates used for disability benefits were included in long-term disability claim termination rates.

The actuarial assumptions used in the December 31, 2017 and 2016 valuations were based on the results of an actuarial experience study conducted for the period December 31, 2013 through December 31, 2015.

Changes in the total OPEB liability

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Liability at beginning of period	\$ 916,809	\$ 908,228
Changes for the year:		
Service cost	95,704	93,936
Interest	35,035	27,344
Changes of economic/demographic gains or losses	(213,980)	
Changes in assumptions or other inputs	(8,148)	(26,656)
Benefit payments	(68,393)	(86,043)
Net change in liability	(159,782)	8,581
Liability at end of period	<u>\$ 757,027</u>	<u>\$ 916,809</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE H - OTHER POSTEMPLOYMENT BENEFIT PLAN - Continued

Sensitivity of the OPEB liability to changes in the discount rate

The following table presents the total OPEB liability as of June 30, 2018, calculated using the discount rate of 3.87%, as well as what the OPEB's liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87%) or 1-percentage-point higher (4.87%) than the current rate:

	1% decrease (2.87%)	Current discount rate (3.87%)	1% increase (4.87%)
Total OPEB liability	\$ 784,535	\$ 757,027	\$ 728,697

OPEB expense

For the years ended December 31, 2018 and 2017, the Hospital recognized OPEB expense of \$105,061 and \$118,526, respectively, which includes the changes in the total OPEB liability and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Deferred outflows and resources and deferred inflows of resources

A summary of the collective deferred outflows of resources and deferred inflows of resources related to the OPEB plan at December 31, 2018 and 2017, are included in the tables below.

	2018	2017
Deferred outflows of resources		
Benefit payments subsequent to the measurement date	\$ 34,197	\$ 43,022
Total deferred outflows of resources	<u>\$ 34,197</u>	<u>\$ 43,022</u>
Deferred inflows of resources		
Differences between expected and actual experience	\$ 191,897	\$ -
Changes of assumptions	<u>28,455</u>	<u>23,902</u>
Total deferred outflows of resources	<u>\$ 220,352</u>	<u>\$ 23,902</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE H - OTHER POSTEMPLOYMENT BENEFIT PLAN - Continued

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2018, that will be recognized in OPEB expense in future years:

<u>Year ended December 31,</u>	<u>Benefit payments subsequent to the measurement date</u>	<u>Recognition of net deferred outflows/(inflows) of resources by year</u>	<u>Total</u>
2019	\$ 34,197	\$ (25,678)	\$ 8,519
2020		(25,678)	(25,678)
2021		(25,678)	(25,678)
2022		(25,678)	(25,678)
2023		(25,678)	(25,678)
Thereafter		(91,962)	(91,962)
	<u>\$ 34,197</u>	<u>\$ (220,352)</u>	<u>\$ (186,155)</u>

NOTE I - EMPLOYEE HEALTH INSURANCE CLAIMS

The Hospital is partially self-insured for health insurance claims of its employees. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of \$265,000 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained an insurance company as its agent to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent net of any amounts covered by reinsurance.

The following is a summary of the activity under this arrangement:

	<u>2018</u>	<u>2017</u>
Estimated employee health insurance claims payable at beginning of period	\$ 276,000	\$ 148,375
Provision for employer's share of incurred claims expenses for the period	3,339,927	2,166,634
Employee contributions	1,104,932	1,054,656
Payments made for claims, expenses, and reinsurance	<u>(4,269,859)</u>	<u>(3,093,665)</u>
Estimated employee health insurance claims payable at end of period	<u>\$ 451,000</u>	<u>\$ 276,000</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE J - INTEREST EXPENSE

Total interest costs incurred are as follows:

	<u>2018</u>	<u>2017</u>
Total interest incurred	\$ 771,445	\$ 805,627
Capitalized interest and amortization	(357,236)	(385,957)
Amortization of bond premium	(158,692)	(164,968)
Amortization of deferred outflows on advance refunding	86,169	113,509
Amortization of prepaid bond insurance	<u>10,053</u>	<u>10,451</u>
Interest expense	<u>\$ 351,739</u>	<u>\$ 378,662</u>

NOTE K - LEASE COMMITMENTS

Space is leased in the Hospital and the medical office building to various physicians and other medical professionals. Lease income for the years ended December 31, 2018 and 2017, was \$566,072 and \$500,318, respectively. Future minimum lease payments receivable under these agreements are not material to the financial statements.

The Hospital also leases property and equipment under various operating leases with related rentals charged to operations as incurred. Total rent expense for the years ended December 31, 2018 and 2017, was \$255,466 and \$231,212, respectively. Scheduled minimum rental payments for all noncancellable operating leases with remaining terms of one year or more are not material to the financial statements.

NOTE L - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Statutes also require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

The carrying amount of the Hospital's deposits with financial institutions was \$4,332,756 and the bank balance was \$4,748,528 at December 31, 2018.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE L - DEPOSITS WITH FINANCIAL INSTITUTIONS - Continued

The bank balance is categorized as follows:

Amount insured by the F.D.I.C., bank deposit guaranty bond, or collateralized with securities held by the Hospital in its name	\$ 304,366
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	<u>4,444,162</u>
	<u>\$ 4,748,528</u>

NOTE M - CONCENTRATION OF CREDIT RISK

The Hospital is located in Emporia, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	35%	35%
Medicaid	10	8
Blue Cross	18	18
Commercial insurance	13	16
Self-pay	<u>24</u>	<u>23</u>
	<u>100%</u>	<u>100%</u>

NOTE N - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$7,000,000 per occurrence with an aggregate amount in any policy year of \$7,000,000. All coverage is on a claims-made basis. The above policies were renewed in January 2019 for the policy period from January 1, 2019 to January 1, 2020.

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE N - RISK MANAGEMENT - Continued

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE O - RECEIVABLES SOLD WITH RECOURSE

The Hospital has an agreement with a local financial institution under which it sells the Hospital's interest in certain self-pay accounts receivable. Sales under this agreement in 2018 and 2017 amounted to approximately \$238,000 and \$295,000, respectively. At December 31, 2018 and 2017, approximately \$404,000 and \$437,000 of such receivables remained uncollected. The receivables are sold with full recourse, and the Hospital is contingently liable for any uncollected amounts. The Hospital has recorded a liability for receivables sold at December 31, 2018 and 2017, of \$113,000 and \$112,000, respectively.

NOTE P - INVESTMENTS HELD BY FOUNDATION

The Foundation's investments are carried at fair market value. The investments are classified as available for sale. The cost and unrealized gains (losses) of the Foundation's investments are summarized as follows:

	2018			2017		
	Cost	Gross unrealized gain (loss)	Estimated fair value	Cost	Gross unrealized gain (loss)	Estimated fair value
Common stock						
mutual funds	\$ 2,330,058	\$ 32,983	\$ 2,363,041	\$ 2,208,011	\$ 607,884	\$ 2,815,895
Common stock	1,040,938	185,706	1,226,644	961,205	318,739	1,279,944
Fixed income						
mutual funds	321,214	(11,396)	309,818	321,214	(6,646)	314,568
U.S. Government and Agency obligations	620,417	(9,079)	611,338	569,496	(6,830)	562,666
Corporate bonds	760,378	(15,667)	744,711	835,984	(2,665)	833,319
	<u>\$ 5,073,005</u>	<u>\$ 182,547</u>	<u>\$ 5,255,552</u>	<u>\$ 4,895,910</u>	<u>\$ 910,482</u>	<u>\$ 5,806,392</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE Q - FAIR VALUE MEASUREMENTS

The Hospital categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are unadjusted quoted prices for identical assets in active markets. Level 2 inputs are significant other observable inputs. Level 3 inputs are unobservable, supported by little or no market activity.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodology used for assets measured at fair value on a recurring basis:

Money market mutual funds, common stock mutual funds, common stock, fixed income mutual funds and REITs, are valued at unadjusted quoted prices for identical securities in active markets (Level 1 inputs).

U.S. Government and Agency bonds and corporate bonds are valued at prices provided by independent pricing services (Level 2 inputs).

The following tables set forth, by level, the assets measured at fair value on a recurring basis for the Foundation.

	December 31, 2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock mutual funds	\$ 2,363,041	\$ -	\$ -	\$ 2,363,041
Common stock	1,226,644			1,226,644
Fixed income mutual fund	309,818			309,818
U.S. Government and Agency obligations		611,338		611,338
Corporate bonds		744,711		744,711
Investments held by Foundation	<u>\$ 3,899,503</u>	<u>\$ 1,356,049</u>	<u>\$ -</u>	<u>\$ 5,255,552</u>
	December 31, 2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock mutual funds	\$ 2,815,895	\$ -	\$ -	\$ 2,815,895
Common stock	1,279,944			1,279,944
Fixed income mutual fund	314,568			314,568
U.S. Government and Agency obligations		562,666		562,666
Corporate bonds		833,319		833,319
Investments held by Foundation	<u>\$ 4,410,407</u>	<u>\$ 1,395,985</u>	<u>\$ -</u>	<u>\$ 5,806,392</u>

The Hospital has the following recurring fair value measurements at December 31, 2018 and 2017, included under the caption of Assets Limited as to Use under bond indenture agreements held by trustee:

U.S. Government and Agency obligations of \$3,007,167 and \$10,724,744, respectively, are valued at prices provided by independent pricing services to the trustee (Level 2).

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE R - SUBSEQUENT EVENTS

The Hospital has evaluated subsequent events through the date of the independent certified public accountants' report, which is the date the financial statements were available to be issued.

NOTE S - CONDENSED COMBINING INFORMATION

Condensed financial data for the Hospital and its blended component unit as of and for the years ended December 31, 2018 and 2017:

	Statement of Net Position - 2018			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets				
Cash and cash equivalents	\$ 4,338,766	\$ 246,205	\$ -	\$ 4,584,971
Other receivables	764,003	1,670	(8,409)	757,264
Other current assets	13,938,669			13,938,669
Investments held by Foundation		5,255,552		5,255,552
Capital assets	33,131,588			33,131,588
Other assets	3,039,137			3,039,137
Total assets	<u>55,212,163</u>	<u>5,503,427</u>	<u>(8,409)</u>	<u>60,707,181</u>
Deferred outflows of resources	<u>4,658,888</u>	<u>-</u>	<u>-</u>	<u>4,658,888</u>
Total assets and deferred outflows of resources	<u>\$ 59,871,051</u>	<u>\$ 5,503,427</u>	<u>\$ (8,409)</u>	<u>\$ 65,366,069</u>
Liabilities				
Accounts payable and accrued expenses	\$ 4,631,190	\$ 23,592	\$ (8,409)	\$ 4,646,373
Other current liabilities	5,787,377			5,787,377
Noncurrent liabilities	41,809,270			41,809,270
Total liabilities	<u>52,227,837</u>	<u>23,592</u>	<u>(8,409)</u>	<u>52,243,020</u>
Deferred inflows of resources	<u>1,124,409</u>	<u>-</u>	<u>-</u>	<u>1,124,409</u>
Net position				
Net invested in capital assets	13,032,593			13,032,593
Restricted				
For debt service	1,693,747			1,693,747
For specific operating activities	197	4,763,320		4,763,517
Nonexpendable permanent endowments		618,081		618,081
Unrestricted	<u>(8,207,732)</u>	<u>98,434</u>		<u>(8,109,298)</u>
Total net position	<u>6,518,805</u>	<u>5,479,835</u>	<u>-</u>	<u>11,998,640</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 59,871,051</u>	<u>\$ 5,503,427</u>	<u>\$ (8,409)</u>	<u>\$ 65,366,069</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE S - CONDENSED COMBINING INFORMATION - Continued

Statement of Revenues, Expenses and Changes in Net Position - 2018				
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenue				
Net patient service revenue	\$ 65,526,988	\$ -	\$ -	\$ 65,526,988
Other revenues	4,032,596		(89,320)	3,943,276
Total operating revenues	<u>69,559,584</u>	<u>-</u>	<u>(89,320)</u>	<u>69,470,264</u>
Operating expenses excluding depreciation and amortization	66,578,230			66,578,230
Depreciation and amortization	3,767,572	594		3,768,166
Total operating expenses	<u>70,345,802</u>	<u>594</u>	<u>-</u>	<u>70,346,396</u>
Operating loss	(786,218)	(594)	(89,320)	(876,132)
Nonoperating revenues (expenses)	271,699	(573,852)	89,320	(212,833)
Excess of revenues over (under) expenses	(514,519)	(574,446)	-	(1,088,965)
Capital grants and contributions	168,812			168,812
Change in net position	(345,707)	(574,446)		(920,153)
Net position at beginning of year				
As previously reported	7,762,201	6,054,281		13,816,482
Cumulative effect of change in accounting principle	(897,689)			(897,689)
As restated	<u>6,864,512</u>	<u>6,054,281</u>	<u>-</u>	<u>12,918,793</u>
Ending net position	<u>\$ 6,518,805</u>	<u>\$ 5,479,835</u>	<u>\$ -</u>	<u>\$ 11,998,640</u>
Statement of Cash Flow - 2018				
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net cash provided (used) by				
Operating activities	\$ 1,658,631	\$ -	\$ (89,320)	\$ 1,569,311
Noncapital financing activities	358,817	(183,873)	89,320	264,264
Capital and related financing activities	(13,003,501)		-	(13,003,501)
Investing activities	<u>9,690,088</u>	<u>169,835</u>	<u></u>	<u>9,859,923</u>
Net change in cash and cash equivalents	(1,295,965)	(14,038)		(1,310,003)
Cash and cash equivalents at beginning of year	<u>5,634,731</u>	<u>260,243</u>	<u></u>	<u>5,894,974</u>
Cash and cash equivalents at end of year	<u>\$ 4,338,766</u>	<u>\$ 246,205</u>	<u>\$ -</u>	<u>\$ 4,584,971</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE 5 - CONDENSED COMBINING INFORMATION - Continued

Condensed financial data for the Hospital and its blended component unit as of and for the year ended December 31, 2017, are presented in the following tables:

	Statement of Net Position - 2017			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets				
Cash and cash equivalents	\$ 5,634,731	\$ 260,243	\$ -	\$ 5,894,974
Other receivables	83,201	170	(28,852)	54,519
Other current assets	12,573,076			12,573,076
Investments held by Foundation		5,806,392		5,806,392
Capital assets	23,524,091	20,276		23,544,367
Other assets	13,987,417			13,987,417
Total assets	<u>55,802,516</u>	<u>6,087,081</u>	<u>(28,852)</u>	<u>61,860,745</u>
Deferred outflows of resources	<u>4,699,147</u>	<u>-</u>	<u>-</u>	<u>4,699,147</u>
Total assets and deferred outflows of resources	<u>\$ 60,501,663</u>	<u>\$ 6,087,081</u>	<u>\$ (28,852)</u>	<u>\$ 66,559,892</u>
Liabilities				
Accounts payable and accrued expenses	\$ 2,294,620	\$ 32,800	\$ (28,852)	\$ 2,298,568
Other current liabilities	7,013,495			7,013,495
Noncurrent liabilities	43,112,883			43,112,883
Total liabilities	<u>52,420,998</u>	<u>32,800</u>	<u>(28,852)</u>	<u>52,424,946</u>
Deferred inflows of resources	<u>1,216,153</u>	<u>-</u>	<u>-</u>	<u>1,216,153</u>
Net position				
Net investment in capital assets	13,101,768	20,276		13,122,044
Restricted				
For debt service	1,568,747			1,568,747
For specific operating activities	297	5,089,954		5,090,251
Nonexpendable permanent endowments		617,441		617,441
Unrestricted	<u>(7,806,300)</u>	<u>326,610</u>		<u>(7,479,690)</u>
Total net position	<u>6,864,512</u>	<u>6,054,281</u>	<u>-</u>	<u>12,918,793</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 60,501,663</u>	<u>\$ 6,087,081</u>	<u>\$ (28,852)</u>	<u>\$ 66,559,892</u>

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE S - CONDENSED COMBINING INFORMATION - Continued

	Statements of Revenues, Expenses and Changes in Net Position - 2017			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenue				
Net patient service revenue	\$ 64,658,482	\$ -	\$ -	\$ 64,658,482
Other revenues	<u>1,421,765</u>		<u>(36,756)</u>	<u>1,385,009</u>
Total operating revenues	<u>66,080,247</u>	<u>-</u>	<u>(36,756)</u>	<u>66,043,491</u>
Operating expenses excluding depreciation and amortization	64,988,590			64,988,590
Depreciation and amortization	<u>3,487,408</u>	<u>1,018</u>		<u>3,488,426</u>
Total operating expenses	<u>68,475,998</u>	<u>1,018</u>	<u>-</u>	<u>68,477,016</u>
Operating loss	(2,395,751)	(1,018)	(36,756)	(2,433,525)
Nonoperating revenues (expenses)	<u>258,081</u>	<u>761,184</u>	<u>36,756</u>	<u>1,056,021</u>
Excess of revenues over (under) expenses	(2,137,670)	760,166		(1,377,504)
Capital grants and contributions	<u>166,274</u>			<u>166,274</u>
Change in net position	(1,971,396)	760,166	-	(1,211,230)
Prior period adjustment for change in accounting principle	(865,206)			(865,206)
Beginning net position	<u>9,701,114</u>	<u>5,294,115</u>		<u>14,995,229</u>
Ending net position	<u>\$ 6,864,512</u>	<u>\$ 6,054,281</u>	<u>\$ -</u>	<u>\$ 12,918,793</u>
Statement of Cash Flow - 2017				
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net cash provided (used) by				
Operating activities	\$ 1,200,869	\$ 17,054	\$ (36,756)	\$ 1,181,167
Noncapital financing activities	391,341	(67,689)	36,756	360,408
Capital and related financing activities	(8,915,543)			(8,915,543)
Investing activities	<u>2,564,991</u>	<u>88,870</u>		<u>2,653,861</u>
Net change in cash and cash equivalents	(4,758,342)	38,235	-	(4,720,107)
Cash and cash equivalents at beginning of year	<u>10,393,073</u>	<u>222,008</u>		<u>10,615,081</u>
Cash and cash equivalents at end of year	<u>\$ 5,634,731</u>	<u>\$ 260,243</u>	<u>\$ -</u>	<u>\$ 5,894,974</u>

REQUIRED SUPPLEMENTARY INFORMATION

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE
NET DEFINED PENSION PLAN LIABILITY

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Hospital's proportion of the net pension liability	1.5180%	1.4379%	1.4021%	1.3113%	1.3564%	1.2942%
Hospital's proportionate share of the net pension liability	\$ 21,158,290	\$ 20,827,835	\$ 21,690,948	\$ 17,217,737	\$ 16,695,265	\$ 19,700,203
Hospital's covered employee payroll	27,809,631	26,441,702	23,875,340	22,679,072	22,551,539	21,110,604
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	76.08%	78.77%	90.85%	75.92%	74.03%	93.32%
Plan fiduciary net position as a percentage of the total pension liability	74.22%	72.15%	68.55%	71.98%	72.56%	64.56%

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
SCHEDULE OF HOSPITAL CONTRIBUTIONS TO DEFINED PENSION PLAN

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 2,333,228	\$ 2,236,968	\$ 2,188,919	\$ 2,225,967	\$ 1,916,622	\$ 1,682,203	\$ 1,561,800	\$ 1,435,114	\$ 1,240,400	\$ 987,174
Contributions in relation to the contractually required contribution	<u>(2,333,228)</u>	<u>(2,236,968)</u>	<u>(2,188,919)</u>	<u>(2,225,967)</u>	<u>(1,916,622)</u>	<u>(1,682,203)</u>	<u>(1,561,800)</u>	<u>(1,435,114)</u>	<u>(1,240,400)</u>	<u>(987,174)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered-employee payroll	<u>\$ 27,809,631</u>	<u>\$ 26,441,702</u>	<u>\$ 23,875,340</u>	<u>\$ 22,679,072</u>	<u>\$ 22,551,539</u>	<u>\$ 21,110,604</u>	<u>\$ 21,340,025</u>	<u>\$ 21,239,066</u>	<u>\$ 20,201,477</u>	<u>\$ 17,757,450</u>
Contributions as a percentage of covered-employee payroll	8.39%	8.46%	9.17%	9.82%	8.50%	7.97%	7.32%	6.76%	6.14%	5.56%

NEWMAN MEMORIAL COUNTY HOSPITAL
D/B/A NEWMAN REGIONAL HEALTH
SCHEDULE OF CHANGES IN THE HOSPITAL'S
TOTAL OPEB LIABILITY AND RELATED RATIOS

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Service cost	\$ 95,704	\$ 93,936
Interest on total OPEB liability	35,035	27,344
Effect of economic/demographic gains or losses	(213,980)	
Effect of assumption changes or inputs	(8,148)	(26,656)
Benefit payments	<u>(68,393)</u>	<u>(86,043)</u>
Net change in total OPEB liability	<u>(159,782)</u>	<u>8,581</u>
Total OPEB liability, beginning	<u>916,809</u>	<u>908,228</u>
Total OPEB liability, ending	<u>\$ 757,027</u>	<u>\$ 916,809</u>
Covered payroll	\$ 25,904,000	\$ 23,561,000
Total OPEB liability as a % of covered payroll	2.92%	3.89%